

**THE DETERMINANTS OF FINANCIAL PERFORMANCE OF LIFE
ASSURANCE COMPANIES IN KENYA**

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DECLARATION

This Research Project is my original work and has not been presented in any other University.

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This Research Project has been submitted for examination with my approval as University Supervisor.

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DEDICATION

I dedicate this work to my wife Hellen Kanario and my son Reuben Kubutha and all those who supported me in the completion of this project. Thank you and May God bless you abundantly

ACKNOWLEDGMENT

I would like to take this opportunity to pass my heartfelt gratitude to all the people who played a big role in assisting me complete my study. First of all, I give thanks to the Lord for giving me good health to start and complete this project successfully, without Him, I would not have come this far.

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ABSTRACT

The objective of the study was to establish the determinants of the financial performance of life assurance companies in Kenya. The study applied a descriptive design. The population comprised of 23 insurance companies which included insurance companies transacting long-term business. These included 14 composite insurance companies and 9 insurance companies transacting life business only. Both primary and secondary data were used. Primary data was collected using a semi structured questionnaire with both open and closed ended questions. The collected data was entered into Statistical Package for Social Sciences (SPSS) version 19 for analysis. The variables of the study comprised the capital structure, organization culture, innovation and ownership structure of the long term insurance companies. The data findings were presented in the form of tables.

The study established that capital structure affected the performance of life insurance companies because it affects the financial costs and burdens of a company. Organization culture affected organization performance because it affected the way employees conducted themselves. The study concluded that capital structure, innovation and ownership structure are determinants of financial performance.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organization performance has been defined as the result of activity, and the appropriate measure selected to assess corporate performance (Hunger and Wheelan, 1997). It is considered to depend on the type of organization to be evaluated, and the objectives to be achieved through that evaluation. Performance of an organization refers to the outcome of activities of individuals and units of the organization. This can be measured in different ways depending with the purpose for which the information is required. One of the most basic tenets of modern financial theory is that managers should act in a manner consistent with maximizing the value of owners' equity (Brinson, Singer and Beebower, 1995). For the insurance industry, the performance is measured in different ways including profitability, timely claims settlement and liquidity which enable it to meet its financial obligations as and when they fall due. An effective control over the performance requires insurance companies to utilize their resources optimally by diversifying their investments in different asset classes.

Life assurance companies have more long-term liabilities, which could stretch even over several decades. Additionally, they have made explicit return guarantees, such as guaranteed interest-rate returns, guaranteed minimum income (annuity) streams, or other guarantees that could be difficult to fulfill in an environment of protracted low interest rates on government bonds and stagnating or deteriorating capital-market valuations (Citibank, 1994). Life assurance companies and pension funds constitute a large segment of the institutional investor space. These institutions play an important role in fixed income markets, especially as major providers of long-term funding to banks and the public sector. Assurance companies and pension funds find themselves at the intersection of major developments. In addition, their business models and

balance sheets are particularly exposed to the low-interest rate environment due to the long duration of their liabilities compared to that of their assets (duration gap) (Elton and Gruber, 1995).

While the accounting and regulatory changes bring important benefits in terms of financial soundness and disclosure, the resulting portfolio shifts also have potential financial market implications and finally on the financial performance of the life insurance companies. Leland and Pyle (1977) show that the value of a company is more correlated with the share of capital owned by the shareholding director. Therefore, it is related to the financial structure. This result led to consider, in the financial structure, in addition to debt and equity, the ownership structure in terms of concentration of capital. In addition, the relationship between performance and ownership structure is not clearly stated in the empirical analysis. Some works emphasize the idea of neutrality, while others tend towards that of the non-neutrality.

In addition, the study of the relationship between debt and performance, Jensen (1986) considers that the debt should require executives to retain only profitable projects to avoid bankruptcy of the company. Indeed, debt financing would encourage leaders to be more efficient and effective in the positions occupied. However, most studies that have examined the relationship debt, ownership structure and performance, were based on U.S. and French data (McGahan and Porter, 1997b).

The financial performance of companies changes over time as profits fluctuate from one year to another and from one company to another. Some companies obtain increases in profit while others record decreases and some even losses. These changes are determined by various factors. Performance factors can be structured in: factors of efficiency, that refer to economic, social and

organizational efficiency; internal environmental factors that refer to ownership, management, company size, complexity, technical endowment, location, human potential, informational and intellectual capital, financial position, organizational culture; and external environmental factors: economical, technological, political, demographical, cultural, scientific, organizational, legal, social, educational, environmental and others (Sima, 2009).

1.1.1 Measures of Financial Performance

Performance outcomes result from success or market position achieved (Hooley, Greenley, Cadogan, and Fahy, 2005). Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan. Performance can be determined in various ways. While there is a range of specific models, major determinants of firm-level profitability include: characteristic of the industry in which the firm competes; the firm's position relative to its competitors; and the quality or quantity of the firm's resources.

Weiner and Mahoney (1981) indicated that numerous measures of corporate performance could be used as dependent variables. However, more important than a specific measure chosen is the use of multiple measures, because different criteria of performance are likely to be differentially affected by the various independent variables (Lieberson and O'Connor, 1972). Financial Performance Ratios is used to measure the financial performance of a business. A financial ratio is an important tool for businesses and managers to measure the progress for achieving the targeted goals. Some of the important financial ratios which a firm would like to analyze include: liquidity ratio, profitability ratios, and financial leverage ratios among others.

1.1.2Determinants of Financial performance

The studies emphasizing on the determinants of company financial performance include two dimensions: theoretical and practical. Theoretical factors influencing business performance are extremely numerous, but only a select few, considered more important, are empirically verified. Qualitative factors determining financial performance of an organization include: organization culture, innovation, capital structure, knowledge spillovers.

Organizational culture is a strong factor that influences company performance. Its importance has intensified ever more in the context of the current competition between companies and the enhancing of human resources importance. It is relevant to note that the formation of an organizational culture is inevitable because this is often influenced by the personality of employees. Or, to remove the risk of string of unproductive attitudes and behaviors, management involvement is imperatively necessary. This can be done by implementing behavioral regulations, fair and proper procedures regarding discipline and various social activities for employees.

Innovation activities refer to the creation, adaptation and adoption of new products, services, processes, and their improvement (Iancu, 2006). Innovation is one of the key factors influencing the performance of modern companies, especially in the context of the fierce competition at microeconomic level, but it is also a priority direction for development at macroeconomic level, national and international.

1.1.3 Life Assurance Companies in Kenya

Life assurance is a contract between an assurance policy holder and an insurer, where the insurer promises to pay a designated beneficiary a sum of money (the "benefits") upon the death of the insured person. Depending on the contract, other events such as terminal illness or critical illness may also trigger payment. The policy holder typically pays a premium, either regularly or as a lump sum. Other expenses (such as funeral expenses) are also sometimes included in the premium (IRA, 2011).

The advantage for the policy owner is "peace of mind", in knowing that the death of the insured person will not result in financial hardship for loved ones. Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; common examples are claims relating to suicide, fraud, war, riot and civil commotion (IRA, 2011).

In life assurance there are four roles: the life assurance company, the policy owner, the insured individual, and the beneficiary. (Technically, the last three roles can all be filled by the same person. Also, a single policy may cover more than one insured and may have more than one beneficiary. The life assurance company pledges to pay a death benefit to the policy's beneficiary upon the death of the insured, so long as the policy is in force at the time of death. The policy owner is responsible for paying premiums in order to maintain the policy in force. The Secretariat ran two Life Assurance Public Education Campaigns in the year 2011. The English campaign run in March to June 2011 on Classic radio, while the Kiswahili campaign run in October to December 2011 on Radio Citizen. The campaign covered the following areas: Benefits of Life assurance; Investment products; last expense products; Loan protection

products; Personal pension plan; and Education policies. Some of the life assurance companies in Kenya are: Capex Life Assurance Company Limited; Apollo Life Assurance Company; CFC Life Assurance Company; Metropolitan Life Assurance Kenya Ltd; Old Mutual Life Assurance Company; Pan Africa Life Assurance Company; Pioneer Life Assurance Company; Shield Assurance Company; and UAP Life Assurance (IRA, 2011).

1.2 Research Problem

Company performance varies among economic sectors, countries and regions. It is influenced by a very large number of factors. Financial performance is important in measuring the efficiency with which the managers employed in an organization are utilizing the resources of the organization for the benefit of the shareholders. Insurance companies have several stakeholders. First the long term insurance contracts are normally future oriented and the funds are invested to accumulate and be paid out to the policy holder upon maturity. As such, the fund needs to be invested in a manner that would maximize the returns on such investment.

The insurance industry in Kenya comprises of 46 registered insurance companies. Out of these, 9 are life insurers, 14 are composite while 23 are general/short term business. The life assurance business is governed by several authorities including Retirement Benefits Authority for the pensions and Insurance Regulatory Authority (IRA) (IRA, 2011). Measuring financial performance in the insurance industry is important in determining the value addition for the shareholders. The Long term insurance business is unique due to the long term nature of the funds invested. If not well managed and invested, the performance of the insurance company will be low thereby leading to low growth in the policyholders' funds. The stability of the long term insurance companies is important because of its key role on the economy.

Several studies have looked at the concept of financial performance and their determinants. Capon, Farley and Hoenig (1990) studied determinants of financial performance: a meta-analysis. In their findings, market share is positively correlated with financial performance, size of the firm appeared unrelated to financial performance, and capital performance intensity was positively related to financial performance. Manoj (2010) studied determinants of successful financial performance of housing finance companies (HFCs) in India and strategies for competitiveness: a multivariate discriminant analysis. (2010) established that enhanced financial performance has become a vital pre-requisite for survival and growth of HFCs. Saliha and Abdessatar (2011) studied the determinants of financial performance: an empirical test using the simultaneous equations method. They focused on the link between performance, form of control and debt. Mong'are (1994) studied financial performance of public enterprises and privately owned firms compared in Kenya. Mong'are established that privately owned enterprises performed much better compared to publicly owned firms. Kathanje (2000) did an evaluation of financial performance of the Kenyan Banking Sector. In the findings Kathanje established that the banking sector then posted consistently growing performance. Koros (2001) did an evaluation of the financial performance of non banking institutions that converted into commercial banks in Kenya. Weche (2004) studied pre and post financial performance of firms privatized through the NSE where it was established that privatized firms performed better after privatization than before. Mwathi (2009) studied relationship between commercial banks financial performance and their ownership structure. Mwathi established that ownership structure affected the performance of commercial banks. From the above discussion, it is clear that further study needs to be done to establish the determinants of the financial performance of life assurance companies in Kenya. This study will seek to answer one question: What are the determinants of financial performance among life assurance companies in Kenya?

1.3 Objective of the Study

The study sought to establish the determinants of the financial performance of life assurance companies in Kenya.

1.4 Value of the Study

This study would benefit the following:

The management of Life Assurance Companies and other organization: It would help them understand the determinants of the financial performance. Financial performance of the long term assurance companies is important in economic stability because of its role in promoting long term investments.

The Government: This study finding would help the government in policy formulation especially on matter relating to determinants of financial performance. Insights into the investment behavior of life assurance firms could thus assist government policymakers in determining whether investment regulations and other controls should be introduced or not.

To scholars this study would provide them with more literature on the topic of determinants of financial performance and even point out areas of further study in the area of determinant of financial performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature deals with the determinant of the financial performance of life assurance companies. The specific areas covered by this chapter include theoretical framework, determinant of portfolio performance and financial performance then chapter summary.

2.2 Theoretical Framework

2.2.1 Capital Asset Pricing Model

The fundamental theorem in asset-pricing theory states that the price of a security is determined by the conditional expectations of its discounted future payouts in frictionless markets. The stochastic discount factor or SDF is a random variable that reflects the fundamental economy-wide sources of risk (Ross, 1976a). The capital asset pricing model (CAPM) states that the return on a stock depends on whether the stock's price follows prices in the market as a whole. CAPM is useful because it is a statistical representation of past risk. The original CAPM theory assumes a linear relation between the market and the individual stocks. The theory also assumes that individual companies have different correlations to the market, articulated through the market beta (Jorion, 1990). Further exploring the underlying theory of whether or not exchange rate exposure should be priced into the stock return, one can consider the CAPM model.

$$\text{CAPM: } R_{it} = r_f + \beta_{im} (r_m - r_f)$$

The main concern of investors, when evaluating portfolio investment, is the total risk exposure measured by the variance or standard deviation of the return of the portfolio. The first commonly acknowledged model, the capital asset pricing model (CAPM), identifies two kinds of

risk: systematic and unsystematic. According to Fletcher (2007) only systematic risk is rewarded as unsystematic is diversifiable. Unsystematic risk is also the firm or industry specific risk, which can be utilized in form of strikes, or natural disaster hitting specific industries e.g. bad weather could be an industry specific risk for farmers, hence according to the CAPM theory firm specific risk is not included in the return of the stock and thus not rewarded. Arguing that this risk can be diversified through portfolio management. Systematic risk can however not be diversified according to Moffett et al (2005) and is related to the risk of the market portfolio. Identifying the type of risk, which exchange rate is derived from, does in principle appear important for investors at least according to the capital asset pricing model.

Several weaknesses of the two-factor CAPM model have later been pointed out, some originating from the CAPM theory - others from the derived two-factor model (Jorion, 1990). Chen et al (1986) and later Jorion (1990) criticize the underlying assumption concerning market return. CAPM is important in explaining the determinants of portfolio performance.

2.2.2 Arbitrage Pricing Theory (APT)

Arbitrage pricing theory (APT) holds that the expected return of a financial asset is largely based on its "beta". Beta is the measure of the relationship between company related factors which influence financial performance and the overall market in which the latter competes. Typically a company which has a beta of one will reflect the market whereas a beta score of 0.75 means that a company will move up or down to the extent of 75 per cent of the corresponding market movement. The Arbitrage Pricing Theory (APT) was developed primarily by Ross (1976a, 1976b). Ross' (1976a) heuristic argument for the theory is based on the preclusion of arbitrage. The APT is a substitute for the Capital Asset Pricing Model (CAPM) in that both assert a linear relation between assets' expected returns and their covariance with other random variables. (In

the CAPM, the covariance is with the market portfolio's return.) The covariance is interpreted as a measure of risk that investors cannot avoid by diversification. The slope coefficient in the linear relation between the expected returns and the covariance is interpreted as a risk premium. Such a relation is closely tied to mean-variance efficiency.

Arbitrage Pricing Theory can be useful if one is investing in a company and wanted to measure the historical share price sensitivity to huge market fluctuations typical during the onset of bull and bear markets. Based on an investor's long-term and short-term goals different investment strategies could be planned using APT as an exhibit. For example, if a company had a beta of one thereby likely to follow the market an investor anticipating a recession would hold off purchasing that stock if their goal was to invest their money for no longer than a few years and vice versa.

There have been a considerable number of studies, which attempt to justify the empirical applicability of the Arbitrage Pricing Theory (APT) as compared to the Capital Asset Pricing Model (CAPM). APT differs from the CAPM in hypothesizing that actual and expected security returns are sensitive, not just to one type of non-diversifiable risk (beta or market risk) but to a variety of different types of risks. Many studies have also endeavored to identify the macroeconomic factors underlying the APT.

2.2.3 Stewardship Theory of Management

Davis, Schoorman and Donaldson (1997) developed the stewardship theory of management as a counter strategy to agency theory. Stewardship theory of management and agency theory have both focused on the leadership philosophies adopted by the owner's of an organization. It grew out of the seminal work by Donaldson and Davis (1989, 1991) and was developed as a model

where senior executives act as stewards for the organization and in the best interests of the principals. The model of man in stewardship theory is based upon the assumption that the manager will make decisions in the best interest of the organization, putting collectivist options above self-servicing options. This type of person is motivated by doing what's right for the organization, because she believes that she will ultimately benefit when the organization thrives. The steward manager maximizes the performance of the organization, working under the premise that both the steward and the principal benefit from a strong organization (Mallin, 2010).

According to Donaldson and Davis (1994), managers are good stewards of the corporations and diligently work to attain high levels of corporate profit and shareholders returns. Those financial managers are principally motivated by achievement and responsibility needs. The finance managers will always strive to invest their resources under their custody optimally so as to maximize the shareholders' wealth.

2.3 Determinants of Financial Performance

2.3.1 Capital structure

Capital structure is an important factor by which a company can increase its performance at its optimum level if the firm uses it in effective and efficient way. The idea of the modern theory is taken from the theory of Modigliani and Miller in 1958, which was assumed under the perfect capital markets (Berger and Patti, 2002). Capital structure, otherwise referred to as, financial structure, is the means by which an organization is financed. It is the mix of debt and equity capital maintained by a firm. The extant literature is awash with theories on capital structure since the seminal work of Modigliani and Miller (1958). How an organization is financed is of paramount importance to both the managers of firms and providers of funds. This is because if a

wrong mix of finance is employed, the performance and survival of the business enterprise may be seriously affected. The point of departure for all modern researches on firm's capital structure is the Modigliani and Miller (1958) proposition which states that in a world of perfect capital market and no taxes, a firm's financial structure will not influence its cost of capital. Consequently, the proposition submitted that firms in a given risk class would have the same applicable discount rate, differing based on "scale factor" only and would be unaffected by financial gearing (Weston and Copeland, 1998). However, Brigham and Gapenski (1996) argue that an optimal capital structure can be attained if there exist a tax sheltering benefits provided an increase in debt level is equal to the bankruptcy costs. They suggest that managers of the firm should be able to identify when the optimal capital structure is attained and try to maintain it at that level. This is the point at which the financing costs and the cost of capital (WACC) are minimized, thereby increasing firm value and performance.

The agency theory initially put forward by Berle and Means (1932) also contributes to the capital structure decision. According to the theory, agency conflicts arise from the possible divergence of interests between shareholders (principals) and managers (agents) of firms. The primary duty of managers is to manage the firm in such a way that it generates returns to shareholders thereby increasing the profit figures and cash flows (Elliot and Elliot, 2002). However, Jensen and Meckling (1976) and Jensen and Ruback (1983) argue that managers do not always run the firm to maximize returns to shareholders. As a result of this, managers may adopt non-profitable investments, even though the outcome is likely to be losses for shareholders. They tend to use the free cash flow available to fulfill their personal interest instead of investing in positive Net Present Value projects that would benefit the shareholders. Jensen (1986) argues that the agency cost is likely to exacerbate in the presence of free cash flow in the firm.

In order to mitigate this agency conflict, Pinegar and Wilbricht (1989) argue that capital structure can be used through increasing the debt level and without causing any radical increase in agency costs. This will force the managers to invest in profitable ventures that will be of benefit to the shareholders. If they decide to invest in non-profitable projects and they are unable to pay the interest due to debt holders, the debt holders can force the firm to liquidation and managers will lose their decision rights or possibly their employment.

Empirical supports for the relationship between capital structure and firm performance from the agency perspective are many and in support of negative relationship. Zeitun and Tian (2007), using 167 Jordanian companies over fifteen year period (1989-2003), found that a firm's capital structure has a significant negative impact on the firm's performance indicators, in both the accounting and market measures. Majumdar and Chhibber (1997) and Rao, M-Yahyaee and Syed (2007) also confirm negative relationship between financial leverage and performance. Their results further suggest that liquidity, age and capital intensity have significant influences on financial performance.

2.3.2 Organizational culture

Organizational culture is a performance determinant that has been intensely studied in the recent period. Organizational culture is an intangible factor of social and psychological nature, which leads employees to behave and act in a certain way. It arises along with the growth of company personnel because of each employee's personality and if not controlled can have a negative influence on performance. The technical side of organizational culture consists of a set of rules, procedures, decisions and recommendations. Through these techniques, company's management attempts to induce a positive attitude and behavior for company employees. Once a certain

culture is implemented among personnel, it has a strong effect on new employees. It is therefore very important for it be a positive and constructive one. The components of organizational culture are very difficult to quantify.

Denison and Mishra (1995), in their study, identified four dimensions of organizational culture: employee involvement, consistency, adaptability and mission, measures that, according to the results of their study, are positively correlated with various indicators of company performance. Another author (Sorensen, 2001) reveals that a strong positive organizational culture increases company performance only in periods of economic stability and its influence is negligible during high volatility periods. Baer and Frese (2003), after developing several empirical studies, have found that a constructive organizational climate that positively affects performance should also encourage initiatives and sustain innovative employees by adopting and implementing their innovations. A company should also provide a psychological safety to employees in the sense that they should not suffer negative consequences if their innovations don't have the desired effect. A recent article (Skerlavajet *al.* 2007) shows the positive influence of another element of organizational culture: employee attitude towards learning and training programs. Quoted researchers argue that this has a direct effect on company's non-financial performance and an indirect effect on financial performance.

2.3.3 Innovation

Organizational innovation is a broad concept that includes strategies, structural, and behavioural dimensions. It includes competitive strategy like role of innovation, costs, people among others; structural characteristics of the organization such as hierarchy, functional lines, and organizational boundaries; work processes including the use of different production inputs, the

flow of work, job design, work allocation, and use of suppliers and subcontractors; Human resource management practices including hiring and firing; and industrial relation practices involving the strategies and institutional structures affecting the labour -management relationship.

Innovation is one of the key factors influencing the performance of modern companies, intensively studied and promoted presently, in the context of the fierce competition at microeconomic level, but it is also a priority direction for development at macroeconomic level, national and international. Innovation is usually a distinct activity within a company. But there are companies that do not have such compartments in their organizational structure. An innovation decision is first necessary to initiate this kind of activity. For example smaller companies cannot afford to invest in innovation due to the high cost of this activity compared to the funds they have at their disposal. The size of investment in innovation, in absolute amount, is usually proportional to the size of the company and inversely proportional to its sales if we consider the relative weight in turnover of research and development expenditure.

Innovativeness is one of the fundamental instruments of growth strategies to enter new markets, to increase the existing market share and to provide the company with a competitive edge. Motivated by the increasing competition in global markets, companies have started to grasp the importance of innovation, since swiftly changing technologies and severe global competition rapidly erode the value added of existing products and services. Thus, innovations constitute an indispensable component of the corporate strategies for several reasons such as to apply more productive manufacturing processes, to perform better in the market, to seek positive reputation in customers' perception and as a result to gain sustainable competitive advantage. Particularly over the last two decades, innovativeness has turned into an attractive area of study for those

researchers who tried to define, categorize and investigate its performance impacts, especially due to its practical relevance. Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage (Drucker, 1985).

2.3.4 Ownership Structure and Firm Performance

One of the most important trademarks of the modern corporation is the separation of ownership and control. Modern corporations are typically run by professional executives who own only a small fraction of the shares. Early theorists such as Williamson (1964) propose that non-owner managers prefer their own interests over that of the shareholders. Consequently, non-owner managed firms become less efficient than owner-managed firms. The more recent literature reexamines this issue and prediction. It points out the existence of mechanisms that moderate the prospects of non-optimal and selfish behavior by the manager. Fama (1980), for example, argues that the availability and competition in the managerial labor markets reduce the prospects that managers would act irresponsibly. In addition, the presence of outside directors on the board constrains management behavior. Others, like Murphy (1985), suggest that executive compensation packages help align management interests with those of the shareholders by generating a link between management pay and firm performance.

Demsetz and Lehn (1985) and Himmelberg et al (1999) found that ownership and performance are endogenously determined by firm specific factors and key variables in the firm's contracting environment. In a seminal study, Morck et al. (1988) proposed a non-linear relationship between insider ownership and firm performance. By examining Fortune 500 firms for the year 1980 and using piecewise linear regression, they find a positive relationship between Tobin's Q and

ownership structure for the 0 per cent to 5 per cent board ownership range, a negative relationship in the 5 per cent to 25 per cent range and a positive relationship for board ownership exceeding 25 per cent. They provide the following interpretation of this non-monotonic relationship; at low and high levels of ownership concentration, the incentive effect of ownership may dominate and lead to positive relation. At middle levels of ownership concentration, managers may feel entrenched in the sense of not being as concerned about losing their positions due to a takeover. However, their results are not robust to the use of accounting-based performance measures.

Hence, non-owner manager firms are not less efficient than owner-managed firms. Most interestingly, Demsetz and Lehn (1985) conclude that the structure of ownership varies in ways that are consistent with value maximization. The empirical evidence on the issue is mixed (Short, 1994). Part of the diverse results can be attributed to the difference across the studies in the criteria for differentiation between owner and non-owner manager controlled firms. These criteria, typically based on percentage ownership by large block holders, are less innocuous and more problematic than initially believed because, as demonstrated by Morck, Shleifer and Vishny (1988) and McConnell and Servaes (1990), the relation between percentage ownership and firm performance is nonlinear. Further, percent ownership appears insufficient for describing the control structure. Two firms with identical overall percentage ownership by large block holders are likely to have different control organizations, depending on the identity of the large block holders.

2.4 Empirical Studies

There are several studies that have studied the determinants of financial performance of organization. McAdam and Keogh (2004) show that innovation is very important for company long - term economic development. It is a factor that explains differences in competitiveness between companies, regions and countries. Other authors (Gunday et al. 2008) measured the influence of innovation on three categories of performance: innovational, operational and market. They found that a correlation exists between innovation and operational performance, but have not identified a significant link between innovation and market performance.

Manoj (2010) studied determinants of successful financial performance of housing finance companies in India and strategies for competitiveness using multivariate discriminant analysis housing. In this study, Finance Companies (HFCs) represented one of the major institutional groups in the formal system for housing finance in India. HFCs which constituted the largest institutional group in formal housing finance system in India till FY 2002 were overtaken by Commercial Banks (CBs) in FY 2003. Consequently, since FY 2003 HFCs had been in the second position only with nearly 28 percent market share, while CBs occupy the first position with over 70 percent share, and a very small share of the market (nearly 0.5 percent, for the last few years) goes to the third group viz. co-operative sector institutions. In the emerging scenario, because of the insistence of 'Base Rate' by the Reserve Bank of India (RBI) with effect from July 2010, commercial banks had to charge higher rates while lending to HFCs. Hence, HFCs, particularly smaller ones will have to face growing cost pressures on their financing in the future. He concludes that, enhanced financial performance has become a vital pre-requisite for survival and growth of HFCs.

Saliha and Abdessatar (2011) studied the determinants of financial performance using an empirical test using the simultaneous equations method. Their findings affirm the presence of a significant interaction between performance, debt and share control. In addition, this comparative study on the listed and unlisted companies shows that listed companies are characterized by growth and profitability than those of unlisted companies. The structure of ownership of unlisted companies is highly concentrated and subjected to the effect of debt financing. Indeed, the poor performance of unlisted companies is due to the closed nature of its capital and high leverage which increases the risk of bankruptcy.

Hansen and Wernerfelt (1989) studied the determinants of firm performance: the relative importance of economic and organizational factors. They integrated two sample models of firm performance, one from the economic paradigm and one from the organizational paradigm. The results confirm the importance and independence of both sets of factors in explaining performance. However, the results also indicate that organizational factors explain about twice as much variance in firm profit rates as economic factors.

Naser and Mokhtar (2004) studied the determinants of corporate performance of Malaysian companies. This study sets out to identify factors that influence corporate financial performance in a sample of Malaysian companies during the period 1998 –2001. Different measures of corporate performance were employed in the current study. ISO registration appeared to be the most significant determinant of corporate performance in the sampled companies. In addition, the results reveal that ROA, EVA, ROS and Inventory are the most significant variables affecting ISO. The findings also revealed that ISO companies outperform non-ISO registered companies. Overall, on the context of the financial effects of ISO 9000 registration, the study found a significant association between ISO 9000 certification and the performance of the

companies surveyed in this current study. The analysis revealed that ISO 9000 accredited Malaysian companies outperformed the unaccredited ones during the period of study. Thus, the study lends support to some of the findings reported in (Haversjo, 2000; Heras, 2002; and Corbett et al., 2002) regarding the link between ISO 9000 registration and company performance.

Berger and Patti (2002) studied capital structure and firm performance: a new approach to testing agency theory and an application to the banking industry. According to them, corporate governance theory predicts that leverage affects agency costs and thereby influences firm performance. They proposed a new approach to test this theory using profit efficiency, or how close a firm's profits are to the benchmark of a best-practice firm facing the same exogenous conditions. They were also the first to employ a simultaneous-equations model that accounts for reverse causality from performance to capital structure. They also control for measures of ownership structure in the tests.

2.5 Chapter Summary

This chapter has reviewed the literature on the determinants of financial performance. It first looked at the theories forming the foundations of the study where it reviewed three theories: Capital Asset Pricing model, Arbitrage Pricing Theory and Stewardship Theory. The CAPM theory measures the return on assets taking into account the risks. The stewardship theory is important because it explains the relationship between the finance managers in the insurance companies making the investments and the investors who may include shareholders and long term policy holders on their interest in the fund. The study also looked at the determinants of financial performance where it looked at capital structure, organization culture, innovation and ownership structure.

The existing studies including McAdam and Keogh (2004) show that innovation is very important for company long - term economic development. It is a factor that explains differences in competitiveness between companies, regions and countries. Manoj (2010) studied determinants of successful financial performance of housing finance companies in India and strategies for competitiveness using multivariate discriminant analysis housing. From the above discussion, it clear that the determinants of financial performance of the long term insurance industry remain unexplored. This study therefore seeks to fill this research gap by looking at the determinants of financial performance of long term insurance companies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This identifies the research design, the target population, procedures and techniques that will be used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

The researcher applied a descriptive design. Mugenda and Mugenda (2003) describes descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. Inferences about relationships between variables were made, from concomitant variables. The research design was chosen because the study was not confined to the collection and description of the data, but sought to determine the existence of certain relationships among the research variables (Mugenda and Mugenda, 2003).

3.3 Target Population

Population refers to an entire group of individual's events or objects having a common observable characteristic. According to Kumar (2005), population is the class, families, living in the city or electorates from which you select a few students, families, electors to question in order to find answer to your research questions. The population of this study comprised of 23 which includes insurance companies transacting long-term business. These included 14

composite insurance companies and 9 insurance companies transacting life business only. Following the small population of the study and the fact that the required data is readily available at the Insurance regulatory Authority, the study conducted a census where all elements of the population were included.

3.4 Data Collection

The study used both primary and secondary data. Primary data was collected using a questionnaire. The questionnaire was structured to contain both open and closed ended questions. Secondary data will be collected from published sources including the IRA reports and financial statements of the long term insurance companies. The study was analyzed for 5 years starting 2007 to 2011 to allow for comparison purposes to provide a trend which will be used to establish the relationship. Specifically, the study used financial ratio (Return on Equity (ROA)) to measure the financial performance.

3.5 Data Analysis

The collected data was entered into Statistical Package for Social Sciences (SPSS) version 19 for analysis. Given that the study model is multivariate, the study used multiple regression technique in analyzing the determinants of the financial performance of life assurance companies in Kenya. The analyses entailed the computation of the various coefficients of correlation denoted as ' β ' in the model to determine the among the identified investment options has the highest impact on the financial performance of long-term life insurance companies.

3.6 Model specification

The variables of the study comprised the capital structure, organization culture, innovation and ownership structure of the long term insurance companies. The regression model was a multivariate model stating the financial performance as a function of the stated determinants of financial performance components as follows:

Thus, the regression equation was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y = Financial performance

$\beta_1, \beta_2, \beta_3$, and β_4 are co-efficient associated with X_1, X_2, X_3 and X_4 respectively.

β_0 = a constant

X_1 = Capital structure

X_2 = Organization Culture

X_3 = Innovation

X_4 = Ownership Structure

E = Error term

Capital structure was measured by the respondents' responses on statements about the effects of capital structure on financial performance. The statement comprised of a five point likert scale ranging from 1-5. Organization culture was measured by organization specific norms and how they impact on financial performance. Innovation was measured by the level new ways discovered by the long term insurance companies in going about their business. Ownership

structure was measured by the manager shareholder relationship and how it affects the financial performance of the companies.

To test for the strength of the model, the study conducted an Analysis of Variance (ANOVA). On extracting the ANOVA table, the researcher looked at the significance value. The study was tested at 95% confidence level and 5% significant levels. If the significance number found is less than the critical value (α) set 2.4, then the conclusion would be that the model was significant in explaining the relationship. Else the model was regarded as non significant.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology.

The study findings are presented on the determinants of financial performance of Life Assurance Companies in Kenya.

4.1.1. Response rate

The study targeted all the 23 insurance companies transacting long-term business. 16 filled in and returned the questionnaire contributing to a response rate of 70%. This high response rate was made a reality after the researcher made personal visits to remind the respondent to fill-in and return the questionnaires. This response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent

4.2 Demographic Statistics

4.2.1 Age of Life Insurance Company

The study sought to establish how long the insurance had been operational. The findings are as shown in table 4.1 below.

Table 4.1: Age of the Insurance Company

No. of years	Frequency	Percent
1- 15 years	7	46
31-45 years	4	27
Over 46 years	3	18
16-30 years	1	9
Total	16	100

From the findings above, the study established that most (46%) of the insurance companies had been in operational between 1-15 years. 27% had been in operation between 31-45 years, 18 % for over 46 years, while 9% had been in operation between 16-30 years.

4.2.2 Clientele Base for life insurance.

The study sought to establish the clientele base for life insurance. The findings were shown in the table 4.2 below.

Table 4.2: Clientele Base

Clientele Base	Frequency	Percent
Less than 1 million	10	64
Between 2 – 3 million	3	18
Between 1- 2 million	1	9
Over 3 million	1	9
Total	16	100

From the findings shown above, 64% of the companies had a clientele base of less than 1 million, 18% had clientele base of between 2-3 million, while 9% between 1-2 million and for over 3 million as illustrated.

4.3 Capital Structure

The study sought to establish the influence of capital structure on the financial performance of life insurance companies. The respondents were required to score the level of their agreement with various statements on the capital structure. The scale ranged from 1-5 where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree. The study computed means and standard deviation to help measure the respondents feeling about the influence of the capital structure. The findings were in table 4.3 below.

Table 4.3: Capital Structure

Capital Structure	Mean	Std. Deviation
Capital structure affects the investment decisions of the company	4.8125	0.40311
Capital structure affects the underwriting processes of the company	3.125	1.31022
Capital structure affects the liquidity ratios of the company	4.3125	0.94648
Capital structure affects the profitability of the company	3.75	1.43759
Capital structure increases the agency costs	3.3125	1.30224

Respondents were asked whether capital structure affected the investment decisions of the company to which they strongly agreed as supported by a mean of 4.8125. The respondents were more neutral on capital structure affecting the underwriting processes of the company as shown by a mean 3.125. However, when asked whether capital structure affected the liquidity ratios of the company, their responses fell between agree and strongly agree as indicated by a mean of 4.3125. Respondents also agreed that capital structure affected the profitability of the company at a mean of 3.75. Finally, respondents were neutral to the fact that capital structure increased the agency costs at a mean of 3.3125.

The study further sought to establish the respondents' opinion at the extent of capital structure on the effect of the financial performance of a long term assurance company. Most respondents indicated that it affected to a great extent because it determined so many factors that influenced financial performance. One of the factors greatly affected by the capital structure included the sources of funds used in the firm which in some instances dictated the investment opportunities that the insurance companies could invest in.

The study further sought to establish ways in which life insurance companies could reduce the effects of capital structure on their performance. They indicated that risk planning, reinsurance

arrangements, regulations, going for cheap sources of capital and finally reducing liquidity risk and financial risk of the long term assurance companies could help insurance companies reduce the effects of capital structure thereby improve their financial performance.

4.4 Organization Structure

Several statements were fronted on the influence of organization culture on the financial performance of life insurance companies. The respondents were required to score the level of their agreement with various statements on the capital structure. The scale ranged from 1-5 where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree. The study computed means and standard deviation to help measure the respondents feeling about the influence of the organization structure. The findings were in table 4.4 below.

Table 4.4: Organization Structure

Organization Structure	Mean	Std. Deviation
Organization culture affects the financial performance	4.1875	1.04682
Organization culture affects the underwriting process	3.9375	1.06262
Organization culture affects the claims process	3.8125	1.27639
Organization culture affects the claims experience	2.5625	1.50416
Organization culture affects the operating expenses	3.6875	1.25

From the research findings, respondents agreed that organization culture affected the financial performance of long term insurance companies at a mean of 4.1875. They further agreed that organization culture affected the underwriting process at a mean of 3.9375 and that it affected the claims process at a mean of 3.8125. Asked whether organization culture affected the claims experience, they were neutral at a mean of 2.5625. However they agreed that organization

culture affected the operating expenses of the long term insurance company at a mean of 3.6875 as illustrated above.

Respondents were further asked to indicate their opinion on the extent of organization culture on the financial performance of a long term assurance company. Most respondents indicated that a positive culture improves financial performance as clients build trust on the company. The inherent culture controls how a company performs.

4.5 Innovation

The study sought to establish influence of innovation on the financial performance of life insurance companies given a scale of 1-5 (where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree. The study computed means and standard deviation to help measure the respondents feeling about the influence innovation as illustrated in the table 4.5 below

Table 4.5: Innovation

Innovation	Mean	Std. Deviation
Innovation affects the accuracy of the long term insurance company	3.75	1.18322
Innovation improves the quality of service delivery thus increase customer satisfaction	4.6875	0.47871
Innovation determines the premium underwritten by long term insurance companies	4.125	1.08781
Innovation reduces the operational costs of the long term insurance company	4.4375	0.51235
Innovation improves staff morale and productivity	4.5625	0.51235
Innovation is key in improving the marketing strategies of the long term life insurance company	4.6875	0.47871

From the findings tabulated above, respondents were asked whether innovation affected the accuracy of the long term insurance company, which they agreed at a mean of 3.75. They strongly agreed that innovation improved the quality of service delivery thus increase customer satisfaction at a mean of 4.6875. On whether innovation determined the premium underwritten by long term insurance companies, respondents agreed with a mean of 4.125. Respondents were further asked whether innovation reduced the operational costs of the long term insurance company, they agreed with a mean of 4.4375. The researcher also sought to establish whether innovation improved staff morale and productivity which was strongly agreed at a mean of 4.5625. Finally, on asked whether innovation was key in improving the marketing strategies of the long term life insurance company, respondents strongly agreed at a mean of 4.6875.

Respondents were further asked to indicate their opinion on the extent at which the organization culture affected the financial performance of a long term assurance company. They noted that to a moderate extent did culture affect performance.

4.6 Ownership Structure

The researcher sought to establish the influence of innovation on the financial performance of life insurance companies given a scale of 1-5 (where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree. The study computed means and standard deviation to help measure the respondents feeling about the influence ownership structure as illustrated in the table 4.6 below

Table 4.6: Ownership Structure

Ownership Structure	Mean	Std.
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		Deviation
Ownership structure of the long term insurance companies affect the investment portfolio of the company	3.6875	1.01448
Ownership structure affects the speed at which investment decisions are made	4.3125	0.70415
Ownership structure determines the sources of finance for new investment opportunities	4.125	0.95743
Ownership structure determines the actuarial valuation of assets on the company	2.8125	1.22304

The study sought to establish whether ownership structure of the long term insurance companies affected the investment portfolio of the company. Respondents agreed at a mean of 3.6875. On whether ownership structure affected the speed at which investment decisions were made, respondents agreed at a mean of 4.3125. On asked whether it determined the sources of finance for new investment opportunities, they further agreed at a mean of 4.125. Finally, respondents were asked whether ownership structure determined the actuarial valuation of assets on the company which they were neutral at a mean of 2.8125 as shown above.

Respondents were further asked to indicate their opinion on the extent at which ownership structure affected financial performance of life assurance companies, most respondents indicated that to a great extent the structure affects the decisions made on investment as well as technological improvements which further affect performance directly. They also stated that it affected the access of additional capital and investment decisions and policies.

4.7 Determinants of Financial Performance

The determinants of financial performance of life assurance companies outlined where the respondents were asked to rank them in the order in which they affect financial performance of life assurance companies given a scale of 1 to 4 as illustrated in table 4.7 below.

Table 4.7: Determinants of Financial Performance

Rank	1	2	3	4
Capital Structure	25%	31%	31%	13%
Organization Culture	31%	19%	13%	38%
Innovation	31%	19%	31%	19%
Ownership Structure	0%	25%	13%	63%

From the findings, ownership structure was the highest ranked at scale 4 with 63%. With the same rank, innovation was at 19% , organization culture at 38% and lastly capital structure ranked with 13%.At rank 3,capital structure and innovation were ranked with 31%, while organization culture and ownership culture at 13%.At rank 2, capital structure ranked with 31%, organization and innovation ranked with 19% each while ownership structure ranked with 25%. Finally at Rank1, capital structure ranked with 25%, organization and innovation ranked at 31% each while ownership structure was not ranked in this category therefore 0%.

Finally, respondents were asked to state their opinion on the extent at which innovation affected performance of a long term assurance company. They indicated that to a great extent, innovation helped the company remain competitive in the market.

4.8 Regression Analysis

A multiple regression analysis was conducted in this study so as to test relationship between variables (independent) and insurance financial performance. The research used statistical package for social sciences (SPSS V 17.0) to code, enter and compute the measurements of the multiple regressions. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Financial Performance) that is explained by all the independent variables (Capital structure, Organizational culture, Innovation and Ownership Structure).

4.8.1 Model Summary

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.8943	0.7998	0.738	1.0021

The four independent variables that were studied explain only 73.80% of the firm's financial performance as represented by the adjusted R^2 . This therefore means that other factors not studied in this research contribute 26.20% of the firm's financial performance. Therefore, further research should be conducted to investigate the other factors (26.20%) that affect firm's financial performance.

4.8.2 Coefficient of Determination

Table 4.9: Coefficient of Determination

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.398	.300		5.264	.371
	Capital structure	0.613	0.095	0.152	2.031	0.024
	Organizational culture	0.546	0.185	0.096	1.384	0.063
	Innovation	0.598	0.099	0.137	2.152	0.041
	Ownership structure	0.574	0.176	0.121	1.357	0.054

As per the SPSS generated table above, the equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$) becomes:

$$Y = 2.398 + 0.613X_1 + 0.546X_2 + 0.598X_3 + 0.574X_4$$

The regression equation above show that taking all factors into account Capital structure, Organizational culture, Innovation and Ownership Structure) constant at zero, financial performance will be 2.398. The findings presented also shows that taking all other independent variables at zero, a unit increase in capital structure will lead to a 0.613 increase in financial performance; a unit increase in organizational culture will lead to a 0.546 increase in financial performance; a unit increase in innovation will lead to a 0.598 increase in financial performance while a unit increase in ownership structure will lead to a 0.574 increase in financial performance. This depicts that capital structure contribute most to financial performance followed by

innovation. At 5% level of significance and 95% level of confidence, capital structure had a 0.024 level of significance; organizational culture showed a 0.063 level of significance, innovation had 0.041 level of significance and ownership structure showed a 0.054 level of significance; hence the most significant factor is capital structure.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary, conclusions and policy recommendations on determinants of financial performance of Life Assurance Companies in Kenya. Based on the findings in chapter four, the study gives a summary, policy recommendations and suggestions for further research. The recommendations are based on the objective of the study.

5.2 Summary

The study targeted all 23 insurance companies transacting long-term business of which 16 filled in and returned the questionnaire giving to a response rate of 70%. Of the insurance companies that responded, 46% had been in operational between 1-15 years while 64% of the companies had a clientele base of less than 1 million.

On capital structure, the study concluded that capital structure affected the investment decisions of the company. It was further concluded that it affected the liquidity ratios and the profitability of the company. The capital structure affected the underwriting processes of the company and finally it increased the agency cost.

On whether organization culture influenced the financial performance of life assurance companies, it was concluded that it affected the financial performance, the underwriting process & the operating expenses of the long term insurance company and finally that it affected the claims experience of the company. On innovation, the study concluded that innovation affected the accuracy of the long term insurance company, it improved the quality of service

delivery thus increase customer satisfaction, it determined the premium underwritten, reduced the operational costs, improved staff morale and productivity and finally improved the marketing strategies.

In order to establish the influence of ownership structure on performance, the study concluded that ownership structure affected the investment portfolio of the company. In addition, it affected the speed at which investment decisions were made. It further determined the sources of finance for new investment opportunities and finally it determined the actuarial valuation of assets on the company. On determinants of the financial performance, ownership structure was the highest determinant of the financial performance.

5.3 Conclusion

The study concludes that capital structure affects the investment decisions, profitability and the ability of a company to meet its financial obligations as and when they fall due. The study further concludes that organization structure affects the financial performance of long term insurance companies, the underwriting process, claims process and the operating expenses of the organization. As such, it is important that insurance companies craft their organization structures appropriately to promote quality and faster decision making and management.

In addition, innovation affects the accuracy, improves the quality of service delivery, determines the premium underwritten, reduces the operational costs, improves staff morale and productivity and finally improves the marketing strategies of the long term life insurance company. The study also concludes that ownership structure of the long term insurance companies affects the investment portfolio because it affects the quality and timeliness of making decisions in an organization.

5.4 Policy Rrecommendations

The study makes the following policy recommendations on the determinants of the financial performance of life assurance companies in Kenya. First, ownership structure is a great determinant of the financial performance and therefore management should ensure that it is efficient and optimal in order for the firm to perform well financially through minimized financial costs. It further recommends that management should ensure that the organizations are technologically up to date because it affects the accuracy, improves the quality of service delivery, determines the premium underwritten, reduces the operational costs, improves staff morale and finally improves the marketing strategies of the long term life of a company.

The study also recommends that the organizations be more innovative in their operations because the operating environment is changing rapidly and only organizations that respond to these changes will survive and be competitive.

5.5 Limitation of study

The study encountered several challenges during data collection and analysis. First, the respondents were reluctant in providing the required information for fear of victimization or leakage of confidential information. The respondents in most cases were not ready to provide information directing the researcher to visit their websites for further information. Some respondents did not fill the questionnaires to be returned for analysis. The researcher handled this problem by carrying an introduction letter from the University and assured the respondents that the information they gave would be treated with confidentiality and was used purely for academic purposes.

5.6 Suggestions for further studies

The study sought to establish the determinants of the financial performance of life assurance companies in Kenya. The study looked at the life insurance companies because of their stringent governance and their long term nature. The study therefore suggests that further study be done on the determinants of the financial performance of general insurance companies considering their short term nature of business.

The study further recommends that another study be carried out to determine the determinants of financial performance among the manufacturing industry following the signing of the East African Common market agreement among the five East African countries which has increased the market.

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APPENDICES

APPENDIX1: QUESTIONNAIRE

THE DETERMINANTS OF FINANCIAL PERFORMANCE OF LIFE ASSURANCE COMPANIES IN KENYA

Date _____

Please take a few minutes to complete this questionnaire. Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in building knowledge on determinants of financial performance of life insurance companies in Kenya. Kindly answer all questions.

SECTION A: DEMOGRAPHIC INFORMATION

1. Name of the Life Insurance Company (optional) _____
2. How long has your Life Insurance Company been in operation?
(a) 1- 15 years [☐] (b) 16-30 years [☐] (c) 31-45 years [☐] (d) Over 46 years [☐]
3. What is your clientele base for life insurance? (Tick as appropriate)

a)	Less than 1 million	[☐]
b)	Between 1- 2 million	[☐]
c)	Between 2 – 3 million	[☐]
d)	Over 3 million	[☐]

SECTION B: CAPITAL STRUCTURE

4. Below are statements on the influence of capital structure on the financial performance of life insurance companies. On a scale of 1-5 (where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree) Please indicate the extent to which you agree with the following statements.

Statement	5	4	3	2	1
Capital structure affects the investment decisions of the company					
Capital structure affects the underwriting processes of the					

company					
Capital structure affects the liquidity ratios of the company					
Capital structure affects the profitability of the company					
Capital structure increases the agency costs					

5. In your opinion, to what extent does capital structure affect the financial performance of a long term assurance company?

6. In what ways can the effects of capital structure on the financial performance of long term insurance companies be improved?

SECTION C: ORGANIZATION CULTURE

7. Below are statements on the influence of organization culture on the financial performance of life insurance companies. On a scale of 1-5 (where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree) Please indicate the extent to which you agree with the following statements.

Statement	5	4	3	2	1
Organization culture affects the financial performance of long term insurance companies					
Organization culture affects the underwriting process of a long term insurance company					
Organization culture affects the claims process of a long term insurance company					
Organization culture affects the claims experience of a long term insurance company					
Organization culture affects the operating expenses of a long					

term insurance company					
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8. In your opinion, to what extent does organization culture affect the financial performance of a long term assurance company?

SECTION D: INNOVATION

9. Below are statements on the influence of innovation on the financial performance of life insurance companies. On a scale of 1-5 (where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree) Please indicate the extent to which you agree with the following statements.

Statement	5	4	3	2	1
Innovation affects the accuracy of the long term insurance company					
Innovation improves the quality of service delivery thus increase customer satisfaction					
Innovation determines the premium underwritten by long term insurance companies					
Innovation reduces the operational costs of the long term insurance company					
Innovation improves staff morale and productivity					
Innovation is key in improving the marketing strategies of the long term life insurance company					

10. In your opinion, to what extent does innovation affect the financial performance of a long term assurance company?

SECTION E: OWNERSHIP STRUCTURE

11. Below are statements on the influence of ownership structure on the financial performance of life insurance companies. On a scale of 1-5 (where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree) Please indicate the extent to which you agree with the following statements.

Statement	5	4	3	2	1
Ownership structure of the long term insurance companies affect the investment portfolio of the company					
Ownership structure affects the speed at which investment decisions are made					
Ownership structure determines the sources of finance for new investment opportunities					
Ownership structure determines the actuarial valuation of assets on the company					

12. In your opinion, to what extent does ownership structure affect the financial performance of a long term assurance company?

13. Below are determinants of financial performance of life assurance companies. On a scale of 1 to 4, please rank them in the order in which they affect financial performance of life assurance companies.

Determinant	Rank (1-4)
Capital Structure	
Organization Culture	
Innovation	
Ownership Structure	